

**KEYSTONE AREA EDUCATION  
AGENCY 1**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2005**

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## KEYSTONE AREA EDUCATION AGENCY 1

### OFFICIALS

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
<b>Board of Directors</b>		
Bill Withers	President	2007
Walter Pregler	Vice President	2005
Craig Morrison	Member	2006
Merle Gaber	Member	2006
Robert Brown	Member	2005
John Ganshirt	Member	2007
Norman Miller	Member	2005
Francis Peterson	Member	2007
John Perrenoud	Member	2006

### Agency

Robert Vittengl	Administrator	
Bob Shaw	Administrative Assistant and Treasurer	
Candace Brockmeyer	Board Secretary	
Carol Crandall	Business Department Manager	Indefinite



**SCHNURR & COMPANY, LLP**  
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Keystone Area Education Agency 1  
Elkader, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Keystone Area Education Agency 1 as of and for the year ended June 30, 2005, which collectively comprise the Agency's basic financial statements listed in the table of contents. These financial statements are the responsibility of Agency officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Keystone Area Education Agency 1 at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2005, on our consideration of Keystone Area Education Agency 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 26 through 27 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Keystone Area Education Agency 1's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Schnurr & Company, LLP***

Fort Dodge, Iowa  
July 28, 2005

## **KEYSTONE AREA EDUCATION AGENCY 1**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Keystone Area Education Agency 1 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Agency's financial statements which follow.

### **2005 FINANCIAL HIGHLIGHTS**

General Fund revenues in 2005 (FY05) were \$19,689,507 while General Fund expenditures for FY05 were \$19,630,563. This resulted in an increase in the Agency's General Fund balance from \$1,491,160 in FY04 to \$1,550,104 in FY05, a 4% increase from the prior year.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Keystone Area Education Agency as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, and Supplementary Information provides detailed information about the non-major funds.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### USING THIS ANNUAL REPORT (Continued)

#### **Reporting the Agency as a Whole**

The Statement of Net Assets and the Statement of Activities

The Government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the Agency's net assets and how they have changed. Net assets — the difference between the agency's assets and liabilities — are one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the Government-wide financial statements, the Agency's activities are divided into two categories:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services, and administration. Local school districts, federal and state aid finance most of these activities.
- *Business-type activities:* The Agency coordinates the cooperative purchasing program, but the vendors direct bill the school districts, so this fund is no longer necessary.

#### **Fund Financial Statements**

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds-not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenues, such as federal grants.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **USING THIS ANNUAL REPORT (Continued)**

#### **Reporting the Agency as a Whole (Continued)**

##### **Fund Financial Statements (continued)**

The Agency has two kinds of funds:

1. Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Fund, and 3) the Debt Service Fund.

The governmental funds required financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. Proprietary funds account for services for which the Agency charges a fee. Proprietary funds are reported in the same way as the Government-wide statements. The Agency's enterprise fund, one type of proprietary fund, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The Agency currently has one Enterprise Fund, the Cooperative Purchasing Fund.

This fund was not necessary in FY04 or FY05 due to the vendors direct billing the school districts.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Keystone Area Education Agency's net assets at the end of fiscal year 2005 totaled approximately 2.4 million. The analysis that follows provides a summary of the Agency's net assets at June 30, 2005 for the governmental activities.

<b>Condensed Statement</b>				
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2004	2005	2004	2005
Current and other assets	\$ 8,579,166	\$ 6,708,302	\$ -	\$ -
Capital assets	5,317,523	4,954,691	-	-
<b>Total assets</b>	<b>13,896,689</b>	<b>11,662,993</b>	<b>-</b>	<b>-</b>
Long-term obligations	4,514,340	4,537,050	-	-
Other liabilities	6,915,211	4,739,019	-	-
<b>Total liabilities</b>	<b>11,429,551</b>	<b>9,276,069</b>	<b>-</b>	<b>-</b>
Net assets:				
Invested in capital assets, net of related debt	967,120	784,288	-	-
Restricted	455,292	431,718	-	-
Unrestricted	1,044,726	1,170,918	-	-
<b>Total net assets</b>	<b>\$ 2,467,138</b>	<b>\$ 2,386,924</b>	<b>\$ -</b>	<b>\$ -</b>

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**of Net Assets**

<b>Total Agency</b>		<b>Percentage</b>
2004	2005	Change (%)
		2004-2005
\$ 8,579,166	\$ 6,708,302	(21.8)
5,317,523	4,954,691	(6.8)
13,896,689	11,662,993	(16.1)
4,514,340	4,537,050	0.5
6,915,211	4,739,019	(31.5)
11,429,551	9,276,069	(18.8)
967,120	784,288	(18.9)
455,292	431,718	(5.2)
1,044,726	1,170,918	12.1
\$ 2,467,138	\$ 2,386,924	(3.3)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis shows the changes in net assets for the year ended June 30, 2005:

	Changes in			
	Governmental Activities		Business-type Activities	
	2004	2005	2004	2005
Revenues:				
Program revenues:				
Charges for service	\$ 606,241	\$ 877,130	\$ -	\$ -
Operating grants and contributions	8,178,950	8,843,799	-	-
General revenues:				
Property taxes	9,850,561	9,991,249	-	-
Unrestricted investment earnings	55,072	114,560	-	-
Gas tax refund	2,028	2,220	-	-
<b>Total revenues</b>	<b>18,692,852</b>	<b>19,828,958</b>	<b>-</b>	<b>-</b>
Program expenses:				
Instruction	117,070	121,637	-	-
Student support services	8,453,227	9,304,874	-	-
Instructional staff support services	5,669,032	5,521,884	-	-
General administration	2,711,642	2,966,848	-	-
Business administration	569,116	783,463	-	-
Plant operations and maintenance	964,696	844,368	-	-
Central and other support services	299,130	183,732	-	-
Interest on long-term debt	255,105	182,366	-	-
<b>Total expenses</b>	<b>19,039,018</b>	<b>19,909,172</b>	<b>-</b>	<b>-</b>
Decrease in net assets	(346,166)	(80,214)	-	-
Net assets beginning of year	2,813,304	2,467,138	-	-
Net assets end of year	<u>\$ 2,467,138</u>	<u>\$ 2,386,924</u>	<u>\$ -</u>	<u>\$ -</u>

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**Net Assets**

<b>Total Agency</b>		<b>Percentage Change (%)</b>
2004	2005	2004-2005
\$ 606,241	\$ 877,130	44.7
8,178,950	8,843,799	8.1
9,850,561	9,991,249	1.4
55,072	114,560	108.0
2,028	2,220	9.5
18,692,852	19,828,958	6.1
117,070	121,637	3.9
8,453,227	9,304,874	10.1
5,669,032	5,521,884	(2.6)
2,711,642	2,966,848	9.4
569,116	783,463	37.7
964,696	844,368	(12.5)
299,130	183,732	(38.6)
255,105	182,366	(28.5)
19,039,018	19,909,172	4.6
(346,166)	(80,214)	(76.8)
2,813,304	2,467,138	(12.3)
\$ 2,467,138	\$ 2,386,924	(3.3)

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

Operating grants and contributions from local, state, and federal sources account for 45% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 75% of the total expenses.

#### **Governmental Activities**

Revenues for governmental activities were \$19,828,958 and expenses were \$19,909,172.

### **FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS**

As previously noted, Keystone Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances increased from \$1,491,160 to \$1,550,104. The primary reason for the increase in combined fund balances in FY 05 was due in part to the inability of the Special Education division to fill vacancies.

#### **Governmental Fund Highlights**

The Agency's General Fund financial position increased as a result of unfilled vacancies in the Special Education division.

#### **Budgetary Highlights**

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and State Board review, the State Board either approves the budget or returns it with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Over the course of the year, the Agency amended its annual operating budget one time to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

On June 30, 2005, the Agency had invested 4.9 million, net of accumulated depreciation, in a broad range of capital assets, including land, building, computers, Media lending library and audio-visual equipment. Keystone Area Education Agency had depreciation expense of \$541,317 in FY05 and total accumulated depreciation of \$5.1 million on June 30, 2005. More detailed information about capital assets is available in Note 4 to the financial statements.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

At the time these financial statements were prepared and audited, the Agency was aware of existing circumstances that could significantly affect its financial health in the future:

- Because of a 22% decrease in health insurance premiums for agency employees, favorable collective bargaining agreements were achieved while still allowing for very adequate salary increases. Employee bargaining unit and non-bargaining unit costs increased from .26% to 3.35% while the controlled funding for the agency increased by 4.27% for the Special Education Division, 2.8% for the Media Division, and 2.73% for the Educational Services Division. The largest federal grant that the agency receives, Part B of IDEA, increased by 1.6%. Savings from the decreased costs in health insurance premiums will be neutralized by the cost of new positions that were added to meet service needs to our constituent schools that seem to be expanding exponentially. A problem that the agency's management must solve is finding a way to maintain the new positions when collective bargaining settlements are not impacted by a positive factor such as a decrease in health insurance premiums that we enjoy for fiscal year 2006. A trend of declining enrollment is also a concern that impacts our future planning, since controlled funding is driven by the number of students.

### **CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager's Office of Keystone Area Education Agency, 1400 2<sup>nd</sup> St N.W., Elkader, Iowa, 52043-9564.

**KEYSTONE AREA EDUCATION AGENCY 1**



## **BASIC FINANCIAL STATEMENTS**

## STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash	\$ 2,707,495	\$ -	\$ 2,707,495
Receivables:			
Accounts	76,453	-	76,453
Due from other governments	1,371,576	-	1,371,576
Inventories	32,877	-	32,877
Prepaid expenses	3,922	-	3,922
Restricted ISCAP assets:			
Investments	2,511,075	-	2,511,075
Accrued interest receivable	4,904	-	4,904
Capital assets (net of accumulated depreciation)	4,954,691	-	4,954,691
<b>Total assets</b>	<b>11,662,993</b>	<b>-</b>	<b>11,662,993</b>
<b>Liabilities</b>			
Accounts payable	277,395	-	277,395
Salaries and benefits payable	1,695,468	-	1,695,468
Interest payable	39,136	-	39,136
ISCAP warrants payable	2,500,000	-	2,500,000
Deferred revenue:			
Federal	39,584	-	39,584
Miscellaneous	187,436	-	187,436
Long-term liabilities			
Portion due or payable within one year:			
Capital leases	210,000	-	210,000
Compensated absences	68,834	-	68,834
Portion due or payable after one year:			
Capital leases	3,960,403	-	3,960,403
Compensated absences	297,813	-	297,813
<b>Total liabilities</b>	<b>9,276,069</b>	<b>-</b>	<b>9,276,069</b>

(Continued on next page)

**KEYSTONE AREA EDUCATION AGENCY 1****Exhibit A  
(Continued)****STATEMENT OF NET ASSETS****June 30, 2005**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Total Liabilities</b>	\$ 9,276,069	\$ -	\$ 9,276,069
<b>Net Assets</b>			
Invested in capital assets, net of related debt	784,288	-	784,288
Restricted for:			
Phase III	12,539	-	12,539
Debt service	419,179	-	419,179
Unrestricted	1,170,918	-	1,170,918
<b>Total net assets</b>	<b>2,386,924</b>	<b>-</b>	<b>2,386,924</b>
<b>Total liabilities and net assets</b>	<b>\$ 11,662,993</b>	<b>\$ -</b>	<b>\$ 11,662,993</b>

See Notes to Financial Statements.

# KEYSTONE AREA EDUCATION AGENCY 1

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants and Contributions
<b>Functions/Programs:</b>			
Governmental Activities:			
Instruction	\$ 121,637	\$ -	\$ 121,543
Student support services	9,304,874	671,933	8,722,256
Instructional staff support services	5,521,884	168,478	-
General administration	2,966,848	-	-
Business administration	783,463	36,719	-
Plant operations and maintenance	844,368	-	-
Central and other support services	183,732	-	-
Interest on long-term debt	182,366	-	-
Total	\$ 19,909,172	\$ 877,130	\$ 8,843,799

### General revenues:

Property taxes  
Unrestricted investment earnings  
Gas tax refund

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

**Exhibit B**

<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (94)	\$ -	\$ (94)
89,315	-	89,315
(5,353,406)	-	(5,353,406)
(2,966,848)	-	(2,966,848)
(746,744)	-	(746,744)
(844,368)	-	(844,368)
(183,732)	-	(183,732)
(182,366)	-	(182,366)
(10,188,243)	-	(10,188,243)
9,991,249	-	9,991,249
114,560	-	114,560
2,220	-	2,220
(80,214)	-	(80,214)
2,467,138	-	2,467,138
\$ 2,386,924	\$ -	\$ 2,386,924

## KEYSTONE AREA EDUCATION AGENCY 1

## Exhibit C

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2005

	Nonmajor Governmental		
	General	Funds	Total
<b>Assets</b>			
Cash	\$ 2,243,130	\$ 464,365	\$ 2,707,495
Receivables:			
Accounts	76,453	-	76,453
Due from other governments	1,371,576	-	1,371,576
Inventories	32,877	-	32,877
Prepaid expenditures	3,922	-	3,922
Restricted ISCAP assets:			
Investments	2,511,075	-	2,511,075
Accrued interest receivable	4,904	-	4,904
<b>Total assets</b>	<b>\$ 6,243,937</b>	<b>\$ 464,365</b>	<b>\$ 6,708,302</b>
<b>Liabilities and Fund Balances</b>			
Accounts payable	\$ 273,468	\$ 3,927	\$ 277,395
Salaries and benefits payable	1,685,711	9,757	1,695,468
Interest payable	9,515	29,621	39,136
ISCAP warrants payable	2,500,000	-	2,500,000
Deferred revenue:			
Federal	39,584	-	39,584
Miscellaneous	185,555	1,881	187,436
Total liabilities	4,693,833	45,186	4,739,019
Fund balances:			
Reserved for:			
Inventories	32,877	-	32,877
Prepaid expenditures	3,922	-	3,922
Phase III	12,539	-	12,539
Media materials	505	-	505
Unreserved:			
Designated for subsequent year's expenditures	169,519	-	169,519
Undesignated	1,330,742	419,179	1,749,921
Total fund balances	1,550,104	419,179	1,969,283
<b>Total liabilities and fund balances</b>	<b>\$ 6,243,937</b>	<b>\$ 464,365</b>	<b>\$ 6,708,302</b>

See Notes to Financial Statements.

## RECONCILIATION OF BALANCE SHEET--

## GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total governmental fund balances (page 14)	\$ 1,969,283
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*Amounts reported for governmental activities in the  
Statement of Net Assets are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$10,119,581 and the accumulated depreciation is \$5,164,890.

4,954,691

Long-term liabilities, including capital leases and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

(4,537,050)

**Net assets of governmental activities (page 12)**

\$ 2,386,924

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES -- GOVERNMENTAL FUNDS  
Year Ended June 30, 2005**

	Nonmajor Governmental		
	General	Funds	Total
Revenues:			
Local sources	\$ 6,402,127	\$ -	\$ 6,402,127
State sources	4,784,432	139,451	4,923,883
Federal sources	8,502,948	-	8,502,948
<b>Total revenues</b>	<b>19,689,507</b>	<b>139,451</b>	<b>19,828,958</b>
Expenditures:			
Current:			
Instruction	1,159	120,384	121,543
Student support services	9,322,347	-	9,322,347
Instructional staff support services	5,401,002	1,079	5,402,081
General administration	2,969,933	9,612	2,979,545
Business administration	758,353	-	758,353
Plant operations and maintenance	622,190	8,376	630,566
Central and other support services	192,599	-	192,599
Debt service	-	361,701	361,701
<b>Total expenditures</b>	<b>19,267,583</b>	<b>501,152</b>	<b>19,768,735</b>
Excess (deficiency) of revenues over (under) expenditures	421,924	(361,701)	60,223
Other financing sources (uses):			
Transfers in	-	362,980	362,980
Transfers out	(362,980)	-	(362,980)
<b>Total financing sources (uses)</b>	<b>(362,980)</b>	<b>362,980</b>	<b>-</b>
Excess of revenues and other financing sources over expenditures and other financing uses	58,944	1,279	60,223
Fund balances, beginning of year	1,491,160	417,900	1,909,060
Fund balances, end of year	\$ 1,550,104	\$ 419,179	\$ 1,969,283

See Notes to Financial Statements.



**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2005**

**Net change in fund balances - total governmental funds (page 16)** \$ 60,223

*Amounts reported for governmental activities in the  
statement of activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Depreciation expense exceeded capital outlay in the current year as follows:

Expenditures for capital assets	\$ 221,242	
Depreciation expense	<u>(541,317)</u>	(320,075)

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources	(42,757)
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Repayment of long-term debt principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	180,000
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Compensated absences expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	<u>42,395</u>
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<b>Change in net assets of governmental activities (page 13)</b>	<u><u>\$ (80,214)</u></u>
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See Notes to Financial Statements.

## KEYSTONE AREA EDUCATION AGENCY 1

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 1. Summary of Significant Accounting Policies**

Keystone Area Education Agency 1 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 25 school districts and private schools in an eight-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U. S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

#### **A. Reporting Entity:**

For financial reporting purposes, Keystone Area Education Agency 1 has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. The Keystone Area Education Agency 1 has no component units which meet the Governmental Accounting Standards Board criteria.

#### **B. Basis of Presentation:**

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### B. Basis of Presentation (continued):

Government-wide Financial Statements (continued) – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental fund:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

#### C. Measurement Focus and Basis of Accounting:

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year-end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities and Fund Equity:

Cash – Cash includes amounts in demand deposits, money market funds and certificates of deposit.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets – Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Buildings	\$ 5,000
Improvements other than buildings	5,000
Furniture and equipment	1,000
Library books	Aggregated annual purchases

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	25
Improvements other than buildings	20
Furniture and equipment	5-20
Library books	5

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year-end.

## NOTES TO FINANCIAL STATEMENTS

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### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **D. Assets, Liabilities and Fund Equity (continued):**

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term Liabilities – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

### **Note 2. Cash and Pooled Investment**

The Agency's deposits in banks at June 30, 2005 were entirely covered by Federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

**Interest rate risk.** The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Iowa School Cash Anticipation Program (ISCAP)

The Agency participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards, and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and are provided monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co., NA is trustee of the program. These accounts are reflected as restricted assets on the Statement of Net Assets and Balance Sheet.

A summary of the Agency's participation in ISCAP as of June 30, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-2005A	6/30/04	6/30/05	\$ -	\$ -	\$ -	\$ -
2005-2006A	6/28/05	6/28/06	2,511,075	4,904	2,500,000	-
			<u>\$ 2,511,075</u>	<u>\$ 4,904</u>	<u>\$ 2,500,000</u>	<u>\$ -</u>

The Agency pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the Agency must repay the outstanding withdrawal from its General Fund receipts. In addition, the Agency must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2004-2005A	\$ -	\$ 2,900,000	\$ 2,900,000	\$ -
2005-2006A	-	-	-	-
	<u>\$ -</u>	<u>\$ 2,900,000</u>	<u>\$ 2,900,000</u>	<u>\$ -</u>

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-2005A	3.000%	2.463%
2005-2006A	3.500%	3.903%

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	<b>Balance Beginning of Year</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance End of Year</b>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 343,373	\$ -	\$ -	\$ 343,373
Total capital assets not being depreciated	<u>343,373</u>	<u>-</u>	<u>-</u>	<u>343,373</u>
Capital assets being depreciated:				
Buildings	5,500,704	-	-	5,500,704
Improvements other than buildings	93,000	-	-	93,000
Furniture and equipment	902,239	6,150	62,489	845,900
Library books	3,479,397	215,092	357,885	3,336,604
Total capital assets being depreciated	<u>9,975,340</u>	<u>221,242</u>	<u>420,374</u>	<u>9,776,208</u>
Less accumulated depreciation for:				
Buildings	1,933,475	185,389	-	2,118,864
Improvements other than buildings	37,665	4,185	-	41,850
Furniture and equipment	622,436	67,856	55,521	634,771
Library books and films	2,407,614	283,887	322,096	2,369,405
	<u>5,001,190</u>	<u>541,317</u>	<u>377,617</u>	<u>5,164,890</u>
Total capital asset being depreciated, net	<u>4,974,150</u>	<u>(320,075)</u>	<u>42,757</u>	<u>4,611,318</u>
Governmental activities capital assets, net	<u>\$ 5,317,523</u>	<u>\$ (320,075)</u>	<u>\$ 42,757</u>	<u>\$ 4,954,691</u>

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:

Instruction	\$ -
Student support services	3,405
Instructional staff support services	301,572
General administration	10,318
Business administration	11,134
Plant operations and maintenance	214,888
Central and other support services	<u>-</u>

**Total governmental activities  
depreciation expense**

\$ 541,317

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	<b>Balance Beginning of Year</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance End of Year</b>	<b>Due Within One Year</b>
Capital leases	\$ 4,350,403	\$ -	\$ 180,000	\$ 4,170,403	\$ 210,000
Compensated absences	409,042	287,545	329,940	366,647	68,834
	<u>\$ 4,759,445</u>	<u>\$ 287,545</u>	<u>\$ 509,940</u>	<u>\$ 4,537,050</u>	<u>\$ 278,834</u>

#### Capital leases:

The Agency is obligated under certain leases accounted for as capital leases. Fixed assets under capital leases included in buildings totaled \$4,687,173 at June 30, 2005. The leases end at various dates through May 1, 2017 at an interest rate of 4.25%. The following is a schedule of future minimum lease payments required under capital leases as of June 30, 2005:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2006	\$ 210,000	\$ 175,011	\$ 385,011
2007	230,000	165,873	395,873
2008	260,000	155,780	415,780
2009	290,000	144,411	434,411
2010	315,000	131,873	446,873
2011 and later years	2,865,403	490,002	3,355,405
<b>Total</b>	<u>\$ 4,170,403</u>	<u>\$ 1,262,950</u>	<u>\$ 5,433,353</u>

Payments under these agreements for the year ended June 30, 2005, including interest of \$182,366, totaled \$361,701.



## NOTES TO FINANCIAL STATEMENTS

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### **Note 6. Operating Leases**

The Agency has leases for copiers and other related equipment that have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire on dates ranging from June 2007 through October 2007.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2005.

<b><u>Year Ending June 30,</u></b>	<b><u>Amount</u></b>
2006	\$ 95,156
2007	95,156
2008	<u>10,747</u>
	<u><u>\$ 201,059</u></u>

Total rental expenditures for the year ended June 30, 2005 for all operating leases, except those with terms of a month or less that were not renewed, was \$95,156.

### **Note 7. Pension and Retirement Benefits**

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$626,564, \$610,308 and \$584,065, respectively, equal to the required contributions for each year.

### **Note 8. Risk Management**

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**KEYSTONE AREA EDUCATION AGENCY 1**

## **REQUIRED SUPPLEMENTARY INFORMATION**

**KEYSTONE AREA EDUCATION AGENCY 1****STATEMENT OF REVENUES, EXPENDITURES/EXPENSES  
AND CHANGES IN BALANCES -- BUDGET AND ACTUAL  
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND****Required Supplementary Information****Year Ended June 30, 2005**

	<b>Governmental Fund Types Actual</b>	<b>Proprietary Fund Types Actual</b>	<b>Total Actual</b>
Revenues:			
Local sources	\$ 6,402,127	\$ -	\$ 6,402,127
State sources	4,923,883	-	4,923,883
Federal sources:	8,502,948	-	8,502,948
<b>Total revenues</b>	<b>19,828,958</b>	<b>-</b>	<b>19,828,958</b>
Expenditures/Expenses:			
Current:			
Instruction	121,543	-	121,543
Student support services	9,322,347	-	9,322,347
Instructional staff support services	5,402,081	-	5,402,081
General administration	2,979,545	-	2,979,545
Business administration	758,353	-	758,353
Plant operations and maintenance	630,566	-	630,566
Central and other support services	192,599	-	192,599
Non institutional programs	-	-	-
Debt service	361,701	-	361,701
<b>Total expenditures/expenses</b>	<b>19,768,735</b>	<b>-</b>	<b>19,768,735</b>
<b>Excess (deficiency) of revenues over (under) expenditures/expenses</b>	<b>60,223</b>	<b>-</b>	<b>60,223</b>
Balance, beginning of year	1,909,060	-	1,909,060
Balance, end of year	<u>\$ 1,969,283</u>	<u>\$ -</u>	<u>\$ 1,969,283</u>

See accompanying Independent Auditor's Report.

<b>Budget</b>		<b>Final to Actual Variance - Favorable (Unfavorable)</b>
<b>Original</b>	<b>Final</b>	
\$ 6,012,648	\$ 5,979,388	\$ 422,739
5,795,735	4,969,940	(46,057)
8,563,098	7,631,298	871,650
20,371,481	18,580,626	1,248,332

124,487	118,902	(2,641)
11,826,848	8,457,197	(865,150)
3,285,937	4,596,711	(805,370)
2,820,649	4,138,953	1,159,408
640,023	1,153,052	394,699
641,932	632,989	2,423
272,953	259,484	66,885
-	-	-
362,980	353,521	(8,180)
19,975,809	19,710,809	(57,926)

395,672	(1,130,183)	1,306,258
1,434,910	2,565,093	(656,033)
\$ 1,830,582	\$ 1,434,910	\$ 650,225

**KEYSTONE AREA EDUCATION AGENCY 1**  
**June 30, 2005**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**

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This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with U. S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

## **OTHER SUPPLEMENTARY INFORMATION**

## KEYSTONE AREA EDUCATION AGENCY 1

## Schedule 1

**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2005**

		<div> <div>Special Revenue</div> <div>Juvenile Home</div> <div>Debt Service</div> <div>Total</div> </div>		
<b>Assets</b>				
Cash		\$ 15,565	\$ 448,800	\$ 464,365
<b>Total assets</b>		<u>\$ 15,565</u>	<u>\$ 448,800</u>	<u>\$ 464,365</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable		\$ 3,927	\$ -	\$ 3,927
Interest payable		-	29,621	29,621
Salaries and benefits payable		9,757	-	9,757
Deferred revenue		1,881	-	1,881
Total liabilities		<u>15,565</u>	<u>29,621</u>	<u>45,186</u>
Fund balances:				
Unreserved, undesignated fund balance		-	419,179	419,179
<b>Total liabilities and fund balances</b>		<u>\$ 15,565</u>	<u>\$ 448,800</u>	<u>\$ 464,365</u>

See Accompanying Independent Auditor's Report.



**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2005**

	<div> <div>Special Revenue</div> <div>Juvenile Home</div> <div>Debt Service</div> <div>Total</div> </div>		
Revenues:			
Local sources	\$ -	\$ -	\$ -
State sources	139,451	-	139,451
<b>Total revenues</b>	<b>139,451</b>	<b>-</b>	<b>139,451</b>
Expenditures:			
Current:			
Instruction	120,384	-	120,384
Instructional staff support services	1,079	-	1,079
General administration	9,612	-	9,612
Plant operations and maintenance	8,376	-	8,376
Debt service	-	361,701	361,701
<b>Total expenditures</b>	<b>139,451</b>	<b>361,701</b>	<b>501,152</b>
<b>Deficiency of revenues under expenditures</b>	<b>-</b>	<b>(361,701)</b>	<b>(361,701)</b>
Other financing sources:			
Transfers in	-	362,980	362,980
<b>Excess of revenues and other financing sources over expenditures</b>	<b>-</b>	<b>1,279</b>	<b>1,279</b>
Fund balances beginning of year	-	417,900	417,900
Fund balances end of year	\$ -	\$ 419,179	\$ 419,179

See accompanying Independent Auditor's Report.

**SCHEDULE OF REVENUES BY SOURCE AND  
EXPENDITURES BY FUNCTION**

**ALL GOVERNMENTAL FUND TYPES**

**For the Last Four Years**

<b>Modified Accrual Basis</b>				
<b>Years ended June 30,</b>				
	<b>2005</b>	2004	2003	2002
Revenues:				
Local	\$ 6,402,127	\$ 6,135,625	\$ 5,926,165	\$ 5,692,600
State	4,923,883	4,891,443	5,588,592	5,503,191
Federal	8,502,948	7,665,784	6,644,135	5,714,781
<b>Total</b>	<b>\$ 19,828,958</b>	<b>\$ 18,692,852</b>	<b>\$ 18,158,892</b>	<b>\$ 16,910,572</b>
Expenditures				
Instruction	\$ 121,543	\$ 117,248	\$ 94,162	\$ 82,528
Student support services	9,322,347	8,422,985	7,666,455	11,754,658
Instructional staff support services	5,402,081	5,624,220	5,242,624	3,540,505
General administration	2,979,545	2,691,044	2,618,878	621,985
Business administration	758,353	571,982	476,412	234,492
Plant operations and	630,566	768,618	565,719	138,345
Central and other support services	192,599	296,276	320,905	266,429
Debt service	361,701	345,683	363,047	349,448
<b>Total expenditures</b>	<b>\$ 19,768,735</b>	<b>\$ 18,838,056</b>	<b>\$ 17,348,202</b>	<b>\$ 16,988,390</b>

See accompanying Independent Auditor's Report.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2005**

<b>Project Title</b>	<b>CFDA Number</b>	<b>Pass-through Grantor's Number</b>	<b>Expenditures</b>
Indirect:			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Part B, Education of Handicapped act (EHA)			
Special Education - Grants to States:			
Basic Entitlement 2005	84.027	5KB2-01	\$ 1,763,727
Basic Entitlement 2005	84.027	40501	5,246,712
Supplemental Support	84.027	4K72-01	111,258
Parent Coordinator Grant 2005	84.027	47401	93,008
Diagnostic Evaluation 2005	84.027	4K71-01	11,163
Para-Educator Projects 2005	84.027	4K76-01	15,258
Learning Supports 2005	84.027	4K75-01	53,712
AEA Physical Therapists Staff Dev Conf	84.027	46705	358
Employment Preparation Study	84.027	50905	2,232
Assistive Tech Trng AEA/LEA Personnel	84.027	2 55428 00	1,607
Autism	84.027		500
			<u>7,299,535</u>
Special Education:			
Grants for Infants and Families with Disabilities			
Part C	84.181	C04-01	185,842
Part C-Parent Measures Surveys	84.181	G-4KC1-1	800
			<u>186,642</u>
Special Education - Preschool Grants:			
Preschool Grant 2005	84.173	04619-01	<u>305,052</u>
Part D-Early Access-Data Coll System	84.326	C04-01	<u>8,500</u>
Iowa Quality Preschool Act	84.323	G-5P13-1	<u>10,806</u>
Crisis Intervention	84.184		<u>29,167</u>
NCLB-Enhancing Education through Technology	84.318		<u>240,817</u>

(Continued on next page)

**KEYSTONE AREA EDUCATION AGENCY 1**

**Schedule 4  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2005**

<b>Project Title</b>	<b>CFDA Number</b>	<b>Pass-through Grantor's Number</b>	<b>Expenditures</b>
Indirect (Continued):			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Vocational Ed - Basic Grants to States, 04-05	84.048A		<u>\$ 259,644</u>
Tech-Prep Education	84.243	Letter	<u>84,480</u>
NCLB-ELL-Title III	84.365		<u>43,585</u>
Title 1 - Reading First	84.357		<u>30,443</u>
AIDS Education	93.938		<u>4,277</u>
			<u><u>\$ 8,502,948</u></u>

**Basis of Presentation:** The Schedule of Expenditures of Federal Awards includes the federal grant activity of Keystone Area Education Agency 1 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.



**SCHNURR & COMPANY, LLP**  
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Keystone Area Education Agency 1  
Elkader, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 (the "Agency"), as of and for the year ended June 30, 2005, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated July 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Keystone Area Education Agency 1, and other parties to whom Keystone Area Education Agency 1 may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

***Schnurr & Company, LLP***

Fort Dodge, Iowa  
July 28, 2005



**SCHNURR & COMPANY, LLP**  
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

Board of Directors of  
Keystone Area Education Agency 1  
Elkader, Iowa

**Compliance**

We have audited the compliance of Keystone Area Education Agency 1 (the "Agency") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. The Agency's major federal program is identified in Part 1 of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

## **Internal Control Over Compliance**

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency and other parties to whom the Agency may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

***Schnurr & Company, LLP***

Fort Dodge, Iowa  
July 28, 2005



# KEYSTONE AREA EDUCATION AGENCY 1

## Schedule of Findings and Questioned Costs Year Ended June 30, 2005

### **Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was:
  - CFDA Number 84.027 - Special Education - Grants to States
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keystone Area Education Agency 1 qualified as a low-risk auditee.

### **Part II: Findings Related to the General Purpose Financial Statements:**

#### **Instances of Non-Compliance:**

No matters were reported.

#### **Reportable Conditions:**

No matters were noted.

### **Part III: Findings and Questioned Costs For Federal Awards:**

#### **Instances of Non-Compliance:**

No matters were reported.

#### **Reportable Conditions:**

No matters were noted.

**Part IV: Other Findings Related to Required Statutory Reporting:**

- IV-A-05 Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- IV-B-05 Budget: Expenditures during the year ended June 30, 2005 exceeded the amount budgeted.
- Recommendation: The budget should be amended before expenditures exceed the budget.
- Response: The budget will be amended before expenditures exceed the budget.
- Conclusion: Response accepted.
- IV-C-05 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-D-05 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-E-05 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.
- IV-F-05 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-G-05 Board Minutes: No transactions requiring Board approval were noted which had not been approved.
- IV-H-05 Deposits and Investments: The Agency complied with the provisions of Chapters 12B and 12C of the Code of Iowa.
- IV-I-05 Certified Annual Report: The Certified Annual Report was filed with the Department of Education timely. However, we noted differences in the amounts reported with respect to the ISCAP balances.
- Recommendation: The Certified Annual Report should be amended to agree with the audit report.
- Response: We will amend the report.
- Conclusion: Response accepted.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

***Schnurr & Company, LLP***

Fort Dodge, Iowa  
July 28, 2005